

The Conference Board **MANAGEMENT RECORD**

Volume 3

1941

Reprinted with the permission of the
National Industrial Conference Board, Inc.

KRAUS REPRINT CORPORATION

New York

1966

The Conference Board MANAGEMENT RECORD

Copyright, 1941, by
National Industrial Conference Board, Inc

Printed in U.S.A.

The Conference Board MANAGEMENT RECORD

JANUARY, 1941

Copyright, 1941, by
National Industrial Conference Board, Inc

VOL. III, No. 1

Labor Problems in Total Defense

WITH the people of the United States somewhat slowly but surely coming to a realization of the significance to them of the titanic struggle between autocracy and democracy, a unanimity of purpose is gradually being forged. Doubts with regard to the part that the United States should play are being resolved in favor of a determination not to be content with a passive program of defense but to make it dynamic—to furnish war material to Great Britain in ever-increasing quantities in the hope that by such aid the war may be won in its present theater of operations. As more and more emphasis is placed on production of war materials in huge quantities and at greater speed, an enormous responsibility is placed on industry and on labor. Consequently, at the beginning of this critical year of 1941 those who must be the leaders in the task of coordinating the efforts of management and labor toward the common objective must be guided by a broad and patriotic realization of how much may depend on their success in maintaining smooth and continuous operation of plant and equipment.

As the year opens, however, the labor picture that lies ahead, as nearly as it can be visualized, is not one to give rise to unrestrained optimism. It is not that the basic factors are unfavorable. On the contrary, they seem to provide little genuine ground for disagreements so serious as to lead necessarily to strikes or lockouts. It is the human factor that causes doubts—whether the seriousness of the situation is as yet sufficiently understood by all ranks to cause them to subordinate personal and group interests and go all out for the cause of national unity and safety. Many problems in the field of labor relations will call for wise and understanding treatment. Five in particular will claim special attention.

WAGE ADJUSTMENTS

By whatever criterion they may be judged, wage levels seem to offer little real cause for serious complaint

at this time. It may be that in isolated cases or in particular occupations there may be inequities that call for correction, but the general wage picture shows labor in a very strong position. Wage rates are higher than they have ever been, and, when multiplied by full-time work weeks and often much overtime, they are resulting in weekly earnings that leave little just ground for complaint. Meanwhile, cost of living changes have thus far been insignificant, so that the worker is receiving the full purchasing power of his increased earnings.

Notwithstanding this situation, demands for higher wages are becoming more frequent. Of course, no one is satisfied with his compensation, whatever it may be, and often the higher it rises the more is the appetite whetted for still further increases. But is insistence on still higher wages justified at a time of national crisis, particularly if it is carried to the point of threatening to halt essential production unless demands are met? If industry were to make large profits, the worker who is applying his skill, often under considerable tension, could, with reason, ask to be compensated proportionately. But there is every indication that there will be no large profits in this war—that any excess over what may be determined by Congress to be reasonable will be reclaimed in taxes.

Therefore, demands for increased wages in the near future will be based not on the need to bring them up to decent levels, not on any diminishing purchasing power, not on the large profits of employing companies, but on the desire to capitalize on an upswing in manufacturing activity, which, to those without discernment, is no different from any other business upswing. These demands will be part of the strategy of some labor unions to increase their membership, consolidate their gains and secure contracts with new companies, since the promise of higher wages is always the most potent argument for joining a union. There already have been cases where exorbitant wage demands have been considered by unions to be perfectly justifiable technique

to be applied in defense industries, even to the point of striking and stopping production if the demands are not granted.

The whole wage problem, as always in abnormal periods and particularly at present, will call for the most careful and open-minded consideration by all concerned. Justice and fairness on both sides must be the rule if this problem is to be dealt with equitably and without endangering the accomplishment of defense objectives. If the present emergency lasts for some time, prices eventually will probably rise and it may be necessary to reconsider wage scales in the light of the then existing conditions. Many companies are, therefore, seriously considering what their policy should be if higher wages are called for. It is their desire to evolve a plan that will work with the greatest fairness to all, interfere the least with established wage rates and differentials between rates, and be susceptible of adjustment with the least friction to the conditions that will develop when the present period of excessive activity comes to an end.

HOURS OF WORK AND SHIFT OPERATION

Working hours have been stepped up as plants enlarge the scope of their operations. For the first time in almost a decade THE CONFERENCE BOARD's figure for average hours of work per week per wage earner for 25 manufacturing industries reached 40 hours in October, 1940. A general average of 40 hours means that in many plants hours far in excess of that number are being worked. When even considerable overtime work fails to meet production needs, the question of additional shifts has to be considered.

If it were merely a question of recruiting additional shifts from an available skilled labor reservoir the problem would be simple. However, with the acute shortage of highly skilled mechanical craftsmen, it is often a question whether competent men can be found from which to make up an additional shift and qualified foremen to provide the necessary supervision. Often a makeshift arrangement is effected through a process of dilution by which the best men are distributed between the shifts to form a nucleus about which the balance of each shift can be recruited.

Where usable labor is available in sufficient numbers or can be quickly trained to perform necessary operations the question of the relative advantages of the 8-hour and 10-hour shifts will be actively discussed. Three 8-hour shifts make possible continuous operation of the plant, and on a 5-day schedule no overtime is necessary. For this reason it is not popular with most workers who want overtime work because of the premium rates that go with it. If 6 days are worked, each shift puts in 48 hours, but employee preference seems to be for more overtime in fewer days in order to have two days of freedom over the week-end. Frequently, as in

the past, there will be no uniform company policy, some departments working on one shift schedule and some on another.

As hours of work are lengthened and the longer schedules are maintained week after week under constant pressure for speed in production, the question of how many hours per week can advantageously be worked will come in for much discussion. The British Health of Munition Workers' Committee found twenty-five years ago, during the first World War, that too long hours were inefficient; that when the work week was reduced from 80 hours or more to somewhere between 50 and 60 hours, total output tended to increase. Again, in the present war, during the summer of 1940, under the necessity of gaining every moment of effort to provide against the imminent prospect of German invasion, hours of work again rose to high levels in British munitions industries, but the Minister of Labour announced his determination to reduce them as soon as possible to a level that could be maintained without strain on the workers and with maximum productive efficiency over a long period. In a statement issued on July 23, 1940, he stated his objective as follows:

As soon as the necessary labor force has been acquired and trained, steps must be taken to institute a permanent scheme to achieve the two primary purposes in view, which are:

- (a) a reduction in the working week to the optimum hours, which experience in many manufacturing fields shows to be in the region of 55 or 56 hours;
- (b) an increase of man hours and the productivity per man hour . . .

It is significant that on September 1, 1939 measures were introduced in Germany having the effect of almost entirely abrogating restrictions on the hours of work of adult male workers and of discontinuing higher pay for overtime. Results were apparently unsatisfactory and in November of the same year Dr. Robert Ley, head of the German Labor Front, put into effect a partial return to pre-war conditions. Overtime in excess of the normal working day was to be limited, this limit being fixed at 10 hours in most industries and 12 hours in types of work requiring for the most part mere attendance.

Of course, the maximum effective work week will vary considerably according to the difficulty and physical and mental strain of different types of work. Fifty hours on some jobs will be more exhausting than 60 hours on others. When maximum utilization of the skills of some types of workers is necessary, experimentation will probably indicate a point somewhere between 50 and 60 hours per week as the most satisfactory from all points of view.

TRAINING

Closely allied to the problem of working hours is that of training. A realization of the magnitude of the de-

fense program and the inadequacy of skilled labor resources early set in motion greatly expanded training activity. In a number of centers effective collaboration between federal and state training agencies and private industry has been worked out and results have exceeded early expectations. These programs, however, can only be expected to provide single-skill specialists, whose training has been directed along lines that will enable them to fit into an established production routine as rapidly as possible.

There remains the problem of a serious shortage of highly skilled machine craftsmen. This difficulty is being attacked by the Training Within Industry Committee working in connection with the National Defense Advisory Commission by encouraging the breakdown of production jobs into a series of operations calling for different degrees of skill, so that each available skilled man may be kept steadily engaged on work requiring his highest skill. In addition, a carefully planned training program within a company is advocated which will aim constantly to raise the abilities of partially skilled workers so that as rapidly as possible they may qualify for more exacting work. It is the plan of this Committee to organize in industrial centers panels of industrial men with training experience who will be on call to advise and assist individual companies in solving their particular training problems.

In many instances individual companies have attacked their problems of training an adequate supply of skilled labor with boldness and vision. Starting from nothing, or from a training program so limited in scope as to be no answer to the present problem, they have quickly worked out and set in motion plans for meeting their immediate as well as more distant needs. American ingenuity is again proving its value in a crisis when established schedules and formulas must be discarded and imagination and inventiveness be given free rein to find possible answers for impossible situations.

GRIEVANCE PROCEDURE

American industry enters the present period of complex operating problems with grievance procedures well established in a large number of plants. This method of correcting at their source, if possible, the many frictions that are unavoidable in working groups will never have a greater opportunity to prove its worth than in the months ahead. Disastrous strikes during the last war and during the 1933-1937 period could often be traced to an accumulation of pent-up resentments that finally resulted in an explosion. A grievance procedure which is worth anything should prevent such accumulations.

Grievances of one kind or another are likely to multiply under the defense manufacturing program. The tempo of work will be increased. Many will be under considerable strain and tempers will be short. Changes in methods will at times cause exasperation. Apparent

inequalities in pay will arouse resentment. Collective bargaining processes will seem at times to drag out unnecessarily when quick action on changes requiring union acceptance needs to be taken. In any number of ways the causes of serious trouble will lie just beneath the surface ready to be touched off at any time unless each potential trouble breeder is systematically taken up and wisely adjudicated. If grievance machinery is to serve the purpose for which it is intended, the mechanics of the system must be kept functioning smoothly as one of the most important duties of the operating and staff executives involved, so that each grievance, however absurd or fantastic it may seem, will be given prompt and sympathetic attention. Putting out the sparks of discontent before they can be fanned into flames will be invaluable insurance against sudden and disastrous stoppages.

ORGANIZED LABOR POLICY

Each company management will encounter difficulties in labor relations which can be equitably worked out with wisdom and a balancing of interests and responsibilities, coupled with a real desire on the part of both management and working force to be reasonable. Far more difficult to appraise is the danger of serious clashes on matters of basic labor policy that may be precipitated from the outside. The big question-mark in the labor situation is what policy will be followed by organized labor in pressing its campaign for enlarging its membership and securing written agreements and specific concessions from company managements.

Quite naturally organized labor brings greatest pressure to bear on company executives when activity is rising and high production is most needed. Never was it more needed than in the defense industries today, and, therefore, never was the temptation greater to press for advantages that as yet have been sought unsuccessfully. What better time to demand the closed shop, the check-off, a voice in setting machine and assembly-line speeds? If, for patriotic reasons, and against his better judgment, the employer accedes to these demands in order to keep the plant running, he is yielding not for the duration of the emergency but for all time. And if he refuses to yield and the plant is struck, which side is unpatriotic? A nice question, and one that is likely to arise many times unless strikes and lockouts are outlawed during the emergency by mutual consent or by government fiat.

In Great Britain they were outlawed last June in defense industries under the imminent threat of German invasion, and the edict making this decision of the war cabinet effective was issued by Mr. Ernest Bevin, Minister of Labour and Supply and also head of the General Transport Workers' Union. A great labor leader and patriot asked of labor the suspension of a basic right for the cause of national safety and se-

cured immediate compliance. Difficulties in negotiation and arbitration were encountered, but the difficulties were surmounted, as indicated by a report of Mr. George Bell, General Secretary of the General Federation of Trade Unions, dated September 30, 1940, from which the following is quoted:

The Management Committee are agreed that during wartime trade disputes should be avoided if at all possible. Since the commencement of the war, quite a number of our secretaries have experienced difficulties with employers who appear to have taken advantage of the war situation to suspend pre-war wage agreements. This has been particularly so with cost-of-living advances. We have recommended that, wherever possible, the matter should be referred to the Chief Conciliation Officer for the district, so that the dispute could be discussed in all its bearings by the trade union and the employer before an independent official of the Ministry of Labour. Failing agreement, then the matter would be referred to the National Arbitration Tribunal. It is of the utmost importance that all sides should understand that the present procedure, which includes compulsory arbitration, is for the war period only. There should be no insuperable difficulty in its operation during that period. When, however, the time comes for the restoration of trade union rights, customs and practices, it is hoped that the principle of compulsory arbitration will not become a permanent part of our industrial machinery, but that Trade Unions will still have the right to govern their own negotiating procedure and maintain their right to strike . . .

The fine spirit of British labor is exemplified in the following paragraph from the same report that deals with a problem which American industry and labor have not yet had to face:

In spite of the anomalies and difficulties that exist, agreement has been reached in a number of industries between the trade unions and the employers that time lost during air raids shall be paid for defined periods at time rates, and piece workers paid on an agreed time rate basis. The position has been varied somewhat because of a more general decision to regard the siren as an alert, following upon the adoption of the roof spotter system. It is expected, especially as the result of training and experience, that the roof spotter system will work with efficiency for the safety of the personnel employed in industry and commerce, and will prevent the slowing up of vital production. We must carry on.

There is no question of the patriotism of most American labor executives. The questions are whether in some cases labor leaders and organizers see national defense objectives and union objectives in proper perspective, and whether higher labor executives can control the activities of some subordinates who may be using the

labor movement as the most effective medium for sabotaging American defense efforts.

It is an accepted fact that Communists are prominent in the leadership of some unions. Just how serious this danger is probably few persons really know. The correction of this situation is made the more difficult by the fact that the most dangerous agents do not make their foreign affiliations known. The high executives in both labor federations are trying to weed out these subversive elements but it is not an easy task. In the meantime, while Communistic influences are known to be active in some unions, the public will view with grave suspicion any actions of such unions that delay or disorganize defense production.

A constructive factor in the labor picture is the more positive position being taken by some labor organizations to align themselves behind the total defense program. Recently the Metal Trades Department of the American Federation of Labor has gone on record as committing itself to the policy: "There must be no stoppage of work." The program advocated includes thorough-going cooperation between management and labor through direct contact between their chosen representatives. Where negotiation fails to settle questions, the services of the Conciliation Division of the United States Department of Labor would be utilized. As a final resort arbitration would be invoked. The proposal is significant, particularly since the union membership involved is between 800,000 and 900,000 in the trades most vital to the defense program.

A democratic nation is traditionally slow to achieve unanimity of purpose and effective mobilization of all its resources—material, manual, mechanical and spiritual. That is the price that must be paid for individual liberty. If, however, it is possible to gain the time necessary to pass through an inevitable period of muddling, a democracy can emerge stronger, more united, more efficient, and more to be dreaded than a nation under totalitarian dictatorship, because free men, once aroused and yielding voluntarily to emergency discipline, are far more formidable than creatures of an authoritarian state. It is the democratic process, therefore, that is on trial. There have been evidences that American industry and labor can work together on the common platform that defense needs must come first. The national emergency requires that this be the guiding principle in all labor relations.

HAROLD F. BROWNE
Management Research Division

Pros and Cons of Merit Rating in Unemployment Compensation

THE CHIEF controversy over state unemployment compensation legislation at present is whether merit rating should be encouraged or should gradually be eliminated. Under these merit rating provisions, the individual employer's contribution rate is adjusted on the basis of his past employment experience.

To date, forty states have incorporated merit rating—or experience rating, as it is also known—in their unemployment compensation acts. Although the principle of merit rating has been widely accepted by state legislators and the majority of employers, antagonism to this system exists, especially among many state administrators of unemployment compensation legislation, organized labor in general, and among some companies in industries subject to wide fluctuations in employment.

Two recent reports by semi-official bodies appointed to examine the subject display the same sharp differences of opinion as to the social desirability of merit rating. The issue was hotly debated in the report of the committee appointed by the Interstate Conference of Employment Security Agencies. The same division of opinion was also evident in the report of the New York Unemployment Insurance State Advisory Council. The present article attempts merely to present in summarized form the two contrasting points of view as brought out in recent studies on the subject.¹ Because of the limited space available, it is possible to give only the more important arguments, and many supporting facts must necessarily be omitted.

The objectives of merit rating are twofold. The primary purpose is to prevent unemployment by offering an incentive to individual companies to stabilize employment; the second objective is to distribute the social costs of unemployment in the most equitable fashion by putting the burden upon employers and consumers responsible for employment irregularity. A minor purpose is to prevent abuses by the workers and to prevent employers from using unemployment benefits as a wage subsidy. The existing controversy is centered about the extent to which these objectives may be achieved and, if attained, whether they are socially desirable.

STABILIZATION OF EMPLOYMENT

Experience rating recognizes and encourages steadier employment by making each employer's contributions

¹The principal sources used in the compilation of this article are two studies of the Industrial Relations Counselors, *Industrial Relations Monographs* No. 1, "The Case for Experience Rating in Unemployment Compensation and a Proposed Method" by Herman Feldman and Donald M. Smith; No. 2, "The Case Against Experience Rating in Unemployment Compensation" by Richard A. Lester and Charles V. Kidd; Report of the Committee on Employer Experience Rating of the Interstate Conference of Employment Security Agencies, September, 1940; Report of the New York Unemployment Insurance State Advisory Council on the Subject of Experience Rating, March 1, 1940.

under the unemployment compensation act contingent upon his own record. It puts a premium on constructive management efforts to stabilize employment. Critics state that the employer who recognizes his own self-interest already has every incentive to avoid employment irregularity, and that a saving of 1% or 2% in payroll does not provide a sufficient stimulus.

Practical business men, however, feel that companies are always trying to find ways to make a definite saving, especially in taxes. Merit rating offers a specified reduction in payroll taxes for a better-than-average employment experience, in contrast to other indefinite and intangible benefits that they may obtain from employment stabilization. As a result, these merit rating provisions have been responsible for the creation of many ingenious devices to reduce employment fluctuations. This is particularly true of the experience of employers in Wisconsin, which has incorporated an individual-reserves provision in its Unemployment Compensation Act.¹

Critics of merit rating are of the opinion that employment stability is beyond the power of any single employer or industry to control, and that merit rating cannot substantially reduce the over-all extent of unemployment. While individual companies may be able to prevent unemployment by stabilization measures, such as expanding their markets or introducing new products, they do so at the expense of other companies, which, because of this new competition, may be obliged to lay off workers. In addition, some types of enterprises cannot stabilize employment because of their dependence upon other industries, or because of the nature of their products or their financial condition.

Opponents also claim that merit rating is discriminatory in that it rewards industries which by their nature are stable and penalizes those that are inherently unstable, even though the latter may, by good management, achieve some degree of stabilization. Experience rating thus penalizes the durable and semi-durable goods industries, construction and mining, which are inherently unstable and yet are likely to be the industries which constitute the basis of recovery after periods of depression and mass unemployment.

Another important criticism of merit rating is that it tends to stabilize employment at minimum levels required by the employer. Reemployment is thus prevented or retarded, since the employer will hesitate to hire workers on an expanding market unless he is sure that he can give them continuous work. This may result in creating two classes of workers, one steadily employed and the other almost as permanently unemployed.

¹Industrial Commission of Wisconsin, "The First Wisconsin Conference on Steadier Jobs," June 21, 1940.

Critics are convinced that some employment, even though very irregular, is better than none at all. They believe that instead of encouraging the practice of working the regular employees overtime during temporary spurts in activity, employers should at least not be penalized for hiring additional workers during such periods. Critics also feel that merit rating may encourage employers to spread work too thin during periods of depression. Actual experience under the Wisconsin Act does not bear out this latter contention.

Some industries are obviously more stable than others. The proponents of experience rating do not, however, advocate that the essentially unstable industry be charged with the entire cost of providing benefits for its unemployed workers. Under merit rating provisions they are still subsidized in part by the contributions of more stable industries, as will be shown in the following section. The advocates raise the question whether, if merit rating provides a sufficient incentive to force employers to pay for excessive overtime, to spread work uneconomically, and to resort to other troublesome and costly expedients to avoid increasing their contributions, it may not be expected to induce employers to devise genuine stabilization measures.

The advocates of merit rating believe that the absence of such provisions might result in even greater evils. A uniform rate might discourage employers from keeping workers on the payroll. Inasmuch as they are paying the state for unemployment protection for their workers, they may feel privileged to lay off superfluous employees rather than to spend money trying to retain their services. A high uniform tax rate may also induce employers to introduce labor saving devices and thus tend to increase the volume of unemployment.

The argument that it is a wise policy to add new workers at every increase of business activity seems somewhat fallacious to advocates of merit rating, for it assumes that the more careless an establishment is in its use of labor the more effective it is in providing employment. If this were to be the objective of all establishments, employment security for many would disappear in order to give occasional employment to the rest.¹

ALLOCATION OF SOCIAL COST

Proponents believe that merit rating is justified as a means of equitably allocating the social costs of unemployment and that employers should pay to the extent that they are responsible for unemployment. The analogy is made to workmen's compensation in which premiums vary in accordance with the risk and extent of accident.

Opponents believe this premise to be false because industrial accidents arise from causes which can be controlled and responsibility fixed. In contrast, it is not

¹Many of the arguments for merit rating are taken from "The Case for Experience Rating," by Herman Feldman and Donald M. Smith.

possible to allocate to each concern or to consumers the responsibility for unemployment. Unemployment is a reflection of the general rate of spending for which society as a whole is responsible. To think of unemployment in terms of personal responsibility, they state, is to be utterly unrealistic.

It is also brought out that inherently stable industries are rewarded under merit rating provisions notwithstanding the fact that they have done nothing to deserve it. This criticism overlooks the fact that in all forms of insurance some individuals profit through wholly fortuitous circumstances. Insurance pursues broad objectives in its differentials and rough justice is the best that can be achieved. Also it is not advocated that each individual employer bear the entire cost of unemployment for which he is responsible. Unlike workmen's compensation, where the maximum differential may go higher than 30%, the merit rating differentials are very limited in scope, and under the most liberal provisions proposed will not exceed 4% of payroll. In any event, the unstable employer will be receiving a subsidy.¹ In addition, if an enterprise can never hope to achieve employment regularity, it will not necessarily lose because stable concerns are favored in rates.

Advocates of merit rating believe a uniform tax rate to be economically unsound, because it tends to cause maladjustment if one industry's cost structure and ultimately its prices are burdened with the additional expense of making payments to unemployed workers in other industries. They believe that if the production of certain articles inherently involves employment fluctuations, the prices of these goods should include the social as well as manufacturing cost.

Critics believe this theory to be an over-simplification of the problem. They doubt whether under our economy this tax can be passed on to the consumer. Rather, they believe, it will probably be borne jointly by the employer who originally pays it, by his workers and by consumers. Just what proportion of the cost will be borne by each is impossible to determine.

The opponents are convinced that the twofold objectives of maximum stimulation of employment and of equitable distribution of social cost will frequently conflict with each other, as one objective may be pursued only at the expense of the other.

Another criticism of merit rating as a means of allocating the social costs of employment irregularity is that it penalizes the declining enterprise and may hasten its dissolution. In an economy such as ours, change is an inherent characteristic. Many enterprises suffer severe declines as new inventions emerge, as consumer habits shift and as natural resources become depleted. By hastening the death of such industries, unemployment is increased and the social problem of rehabilitation of laid-off workers arises. To reward a rapidly ex-

¹Herman Feldman and Donald M. Smith, *op. cit.* page 19.

panding industry and at the same time to penalize an industry in a gradual state of decline is manifestly discriminatory and results in many inequities, according to the critics of merit rating.

On the other hand, the advocates of merit rating ask what justification exists for favoring an industry characterized by unstable employment if an emerging competing industry is preferable? Many of the problems facing an employer in a declining industry are not fundamentally different from those of any employer in modern competitive economy. There are employers who have made rapid adjustments to changing competitive conditions, even in declining industries. As already pointed out, these declining industries would be partially subsidized by more stable industries.

INTERSTATE COMPETITION AND BENEFITS

The opponents of merit rating believe that it was one of the fundamental objectives of the Social Security Act to promote uniform unemployment insurance tax rates in all states in order to avoid interstate competition. They believe that undesirable interstate competition will result if state legislatures are permitted to impose lower unemployment compensation taxes on their industries to place them in a more favorable position than industries in other states. Pressure on state legislatures by employers in unfavorable competitive positions may be great, and the general result may be to reduce the chances for creating a more liberal and adequate benefit structure. Through the device of experience rating, the states may engage in such a competitive race to reduce taxes that it may create a threat to the solvency of the state funds.

In contrast, the advocates of merit rating point to the fact that there would be far greater danger of interstate competition if contribution rates were uniformly reduced, rather than by merit rating, under which each employer's contributions depend upon his own record and performance. They point out there are many other factors far more important than experience rating differentials in so far as interstate competition is concerned. Factors such as nearness to raw materials and to markets, freight-rate differentials and other important items influence the location of industries far more than a possible difference in compensation tax of 1% or 2% on payrolls.

Defenders of experience rating under unemployment compensation also believe that the importance of interstate competition has been generally exaggerated, as proved by the experience with workmen's compensation legislation during the past several decades. While there have doubtless been isolated cases where the premium differentials under workmen's compensation had a material effect on interstate competition, by and large this argument has been of diminishing importance in the field of workmen's compensation, despite the fact

that those differentials are frequently far greater than the differentials involved under the experience rating systems of the state unemployment compensation laws.

Attention was also called to the fact that the trend under workmen's compensation laws over a period of years was toward liberalization of benefits, despite the differential rates, and it is probably true that unemployment compensation benefits will follow the same general trend. Proponents believe, in fact, that there are substantial reasons for believing that merit rating may help to secure greater benefit protection than could be obtained otherwise. Indeed, they feel that the time may come when excessive liberalization may become dangerous.

SOLVENCY OF FUND

Merit rating, the opponents believe, has ceased to have as its objective the regularization of employment and has become a means of securing a tax reduction. They are convinced that there is grave danger to the future of unemployment compensation in this situation. In a number of state laws, the rate decreases are not compensated by proportionate increases for employers with poor experience. This may result in impairing the solvency of many state funds. By causing contributions to be reduced during good times, merit rating may weaken the funds and lead to a reduction in total benefit payments during subsequent depression periods.

Although it is recognized by advocates of merit rating that several state laws should be strengthened, they believe that every state has a clear interest in protecting its solvency and will take appropriate measures in case its laws do not include adequate safeguards. They point to the fact that a 2.7% flat rate law does not necessarily assure solvency, especially if the state contains a preponderance of unstable industries. In fact, a fund's solvency will partly depend upon whether it has to finance needless benefits for preventable lay-offs.

ADMINISTRATION OF FUND

An argument against merit rating is the administrative difficulties involved. The problem of keeping the accounts of many thousands of concerns that are going into business or out of business, that are merging or are splitting up, seems overpowering to administrators who are already burdened with a vast amount of clerical work involved in calculating and paying benefits.

A simplified form of merit rating, known as the "Texas" plan, has been devised to overcome the difficulties of administering the earlier merit rating provisions. This plan has been incorporated in the unemployment compensation laws of Texas, Delaware, Illinois and Massachusetts.

F. BEATRICE BROWER
Management Research Division

Foreman Compensation¹

MOST EXECUTIVES feel that if longer working hours under forced-draft operations prevail in the near future they will have to protect the foreman's prestige by providing some method of supplementing his income to keep pace with that of the workers whom he directs. There is marked interest in 1941 in forestalling a re-occurrence of conditions such as in 1929 when, according to one executive, "working foremen were taking home more per week than salaried foremen, and skilled workers were taking home more money than the working foremen." There is not the same willingness today to accept the philosophy that a more favorable job security and other conditions associated with salary status offset the extra earnings that hourly workers receive when considerable overtime is worked.

Several companies have reported formal agreement upon a definite percentage, such as 15% or 20%, that is to be considered the minimum differential between a supervisor's income and that of the highest paid worker under his direction.

A 20% supervisory pay differential may prove inadequate when employees are required to work many hours of overtime. For example, a worker whose regular rate is \$1.00 per hour would have to work only 5½ hours beyond the 40-hour standard required by the Fair Labor Standards Act in order to equal his supervisor's pay if the supervisor, not being paid for overtime, has a pay differential of only 20%.

OVERTIME COMPENSATION

If long working hours become the rule during the rearmament program, it seems that some overtime adjustment plan will be necessary in relation to foremen ordinarily exempt from the time-and-one-half rule. There are indications that some companies have already adopted such measures. Seven companies out of thirty-five reporting on this policy are paying "overtime" to foremen usually considered exempt from such payments. Following are two individual company applications of that policy:

Company 1—Department foremen are paid straight time for overtime when such extra working time is specifically requested by the management.

Company 2—In this company ten foremen earn salaries from \$58 to \$100 per week and are paid for over-time.

Of twenty companies reporting their overtime policy relating to assistant foremen, ten are paying overtime. The salary of these assistant foremen is on a weekly basis.

¹A digest of a forthcoming report under the same title to be published by THE CONFERENCE BOARD (*Studies in Personnel Policy*) and based on information obtained from 52 companies, largely through personal visits to selected companies.

NIGHT BONUS

Many companies that have multiple shifts pay their workers higher rates on the night shifts than on the day shifts, usually 5% or 10% more. This policy is being extended in some companies to include foremen. Of 15 companies reporting that a night-shift bonus is paid to workers, 4 companies stated that a similar bonus was now being paid to foremen. The lowest bonus reported was 5%, and the highest, 20%.

FOREMEN'S BONUS

Twenty companies out of fifty reporting have plans for foremen bonus¹ in effect as a means of raising their income level in relation to that of the workers under them. In addition to the effect of widening the pay differential, other advantages are claimed for well-designed foremen's bonus plans.

A foremen's bonus plan that has been successfully applied over a period of ten years in a steel company has paid the foremen, on the average, a bonus of about 12%. It has the following essential characteristics:

Participants

The bonus is paid to the key men in each plant who have the control of expenditures in their hands.

Method of Payment

The monthly bonus payment to each participant is calculated as a percentage of the man's earnings for the month. This percentage of bonus is based upon the percentage of saving which the plant, as a whole, has made over an established standard. In order to eliminate fluctuations, the past three months are used in determining this percentage.

Establishment of Standards

The standards are based upon a history period of about two years. Recognition is given in these standards for type of product, volume of production, wage and commodity price levels, and other variables which are largely beyond the control of the participants.

Items Included

The bonus plan covers all plant costs which are considered to be under the control of the participants, such as labor, supplies, repairs, scrap loss, and losses due to customer claims for defective material. Certain items, such as taxes, insurance, and depreciation, are eliminated as being uncontrollable.

Other Features of the Plan

Monthly round tables are held at which cost charts are reviewed and suggestions for improvements are discussed.

There is no proof that the income of foremen in companies that have adopted foremen's bonus plans is, in

¹A bonus paid in direct relation to the performance of a department or group of departments, the calculation being in accordance with pre-determined performance standards.

general, higher than that of comparable foremen in companies that pay their foremen straight salaries. In fact, the highest foreman's salary mentioned in this survey is a straight salary of \$100 per week, paid by a machine tool company to the foreman in charge of final assembly.

THE TREND IN FOREMEN'S INCOME

There are few statistics on foremen's earnings that show their relative standing today as compared with previous years. Some companies, however, were able to provide information of this type and a comparison of basic rates of three department foremen in a machine tool company in which the foremen have been paid on an hourly basis during the entire period 1929-1940 shows increases in basic hourly rates varying from 24% to 29.2%. These are typical of the increases mentioned by a number of companies.

CURRENT PRACTICES

Foremen have been instrumental in the success of many job evaluation applications involving workers' jobs. It seems natural, therefore, that the technique should be further extended to the analysis of their own jobs. This method introduces sound thinking in regard to the proper basic pay differentials between supervisory jobs at various levels and workers' jobs, in contrast with a mere yielding to market demands and other forms of pressure which have often been the rule.

Job Evaluation Applied to Foremen's Jobs

Five companies in this survey reported that job evaluation, a technique for appraising the relative worth of jobs according to the relative importance of job requirements, has been extended to the evaluation of foremen's jobs.

One plan of this type that was described in an earlier CONFERENCE BOARD study¹ makes use of the same factors in evaluating supervisory jobs that are used in evaluating workers' jobs. The factors and their scale of values are as follows:

Job Factor	Minimum Point Value	Maximum Point Value	Relative Weight Per Cent
1. Education required.....	0	10	10
2. Previous experience required.....	0	10	10
3. Training time required.....	0	10	10
4. Physical or mental fatigue involved.....	0	10	10
5. Details involved.....	0	10	10
6. Quality required.....	0	10	10
7. Resourcefulness required.....	0	10	10
8. Versatility required.....	0	10	10
9. Cooperation and personality required.....	0	10	10
10. Responsibility required.....	0	10	10

¹THE CONFERENCE BOARD *Studies in Personnel Policy No. 25, "Job Evaluation—Formal Plans for Determining Basic Pay Differentials."*

Foremen Rating

Another management procedure that is gaining increasing adoption, particularly in companies that favor straight salaries for foremen rather than salaries plus bonuses, is foreman rating, an extension to the supervisory force of the technique of employee rating—the evaluation of employees' performance on the basis of certain measurable factors. While this procedure may, or may not, be linked directly with pre-determined increases in salaries, it offers the possibility of achieving some of the advantages of a foreman's bonus without its alleged weaknesses.

Probably the most practical advantage of a formal plan for rating foremen's progress and performance lies in the fact that management is making known its willingness to review every foreman's income status at regular intervals. Every foreman is thereby assured that at least he is not being forgotten.

The Temporary Supervisor

While formerly it was often the practice to pay the average of their past earnings to workers who were elevated temporarily to supervisory status, today an increasing number of companies are paying immediately either a definite amount per hour above past earnings or a definite percentage increase. Such added earnings are dropped upon their return to non-supervisory work. One company reports that "a section leader appointed temporarily gets 10% additional pay for supervisory duties."

COMMENTS

There are divergent views regarding the role that each level of supervision should play in employer-employee relations. Some executives feel that a more realistic view should be taken toward the supervisory level having direct contact with workers, limiting the functions of these men to job supervision and assigning them minimum discretionary and interpretative power.

Recent cases of management's short-circuiting the foreman in dealing with organized labor have raised the question whether the foreman is the "key man" or the "forgotten man" in industry. Where management has strengthened the channel of communication between employer and employee by first convincing the foreman that policies and practices are fair, it has usually followed that the worker has also been convinced that management's policies and practices are fair. It seems likely that the foreman's own thinking on this matter will be influenced in no small degree by the care and attention that management gives to the fairness of his compensation.

E. S. HORNING
Management Research Division

A Glance at Labor Statistics

Average hourly earnings of all wage earners in 25 manufacturing industries increased from 74.4¢ in October to 74.7¢ in November, 1940. In November, 1939 the corresponding figure was 72.7¢.

Average weekly earnings of all wage earners declined very slightly from \$29.84 in October to \$29.77 in November, 1940. The figure for November, 1939 was \$28.49.

Employment again rose sharply from an index of 103.4 in October to 105.6 in November, or 2.1%. This constitutes an increase of 11.6% in employment since November, 1939.

Average hours of work per week dropped slightly from 39.9 in October to 39.7 in November, as compared with 39.1 in November, 1939.

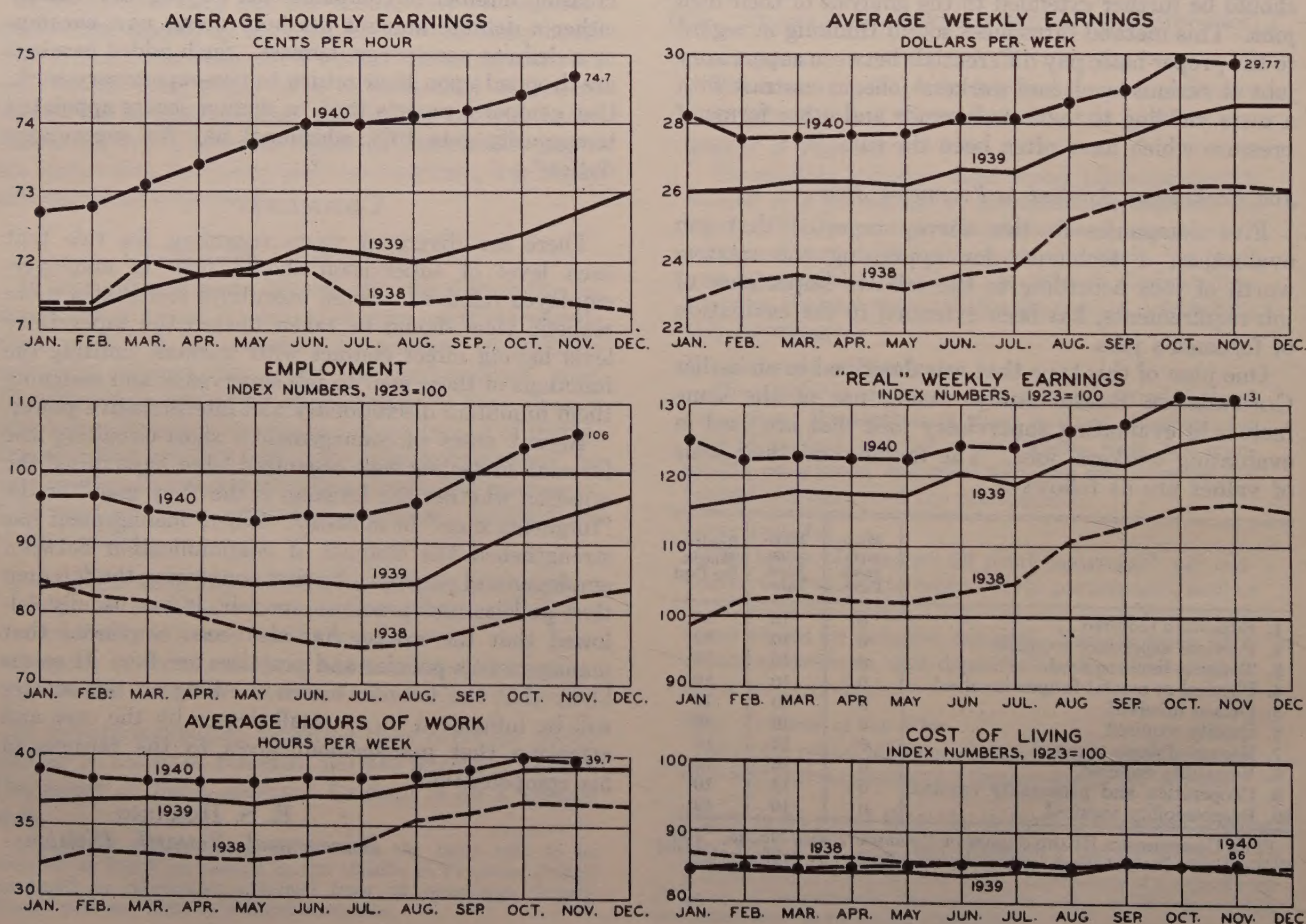
The cost of living rose slightly from 85.5 in November to 85.8 in December. This is not quite one point higher than the index of 84.6 in December, 1939. The purchasing power of the dollar on the basis of the cost of living stood at \$1.166 in December, 1940, as compared with \$1.00 in 1923.

Real weekly wages, or the purchasing power of money wages, remained practically unchanged, though the index number shaded off from 131.1 in October to 130.9 in November.

The number of unemployed persons in the United States, according to THE CONFERENCE BOARD's estimates, increased by 573,000 from October, as a result of a large decline in agricultural employment, to a total of 7,217,000 in November, 1940.

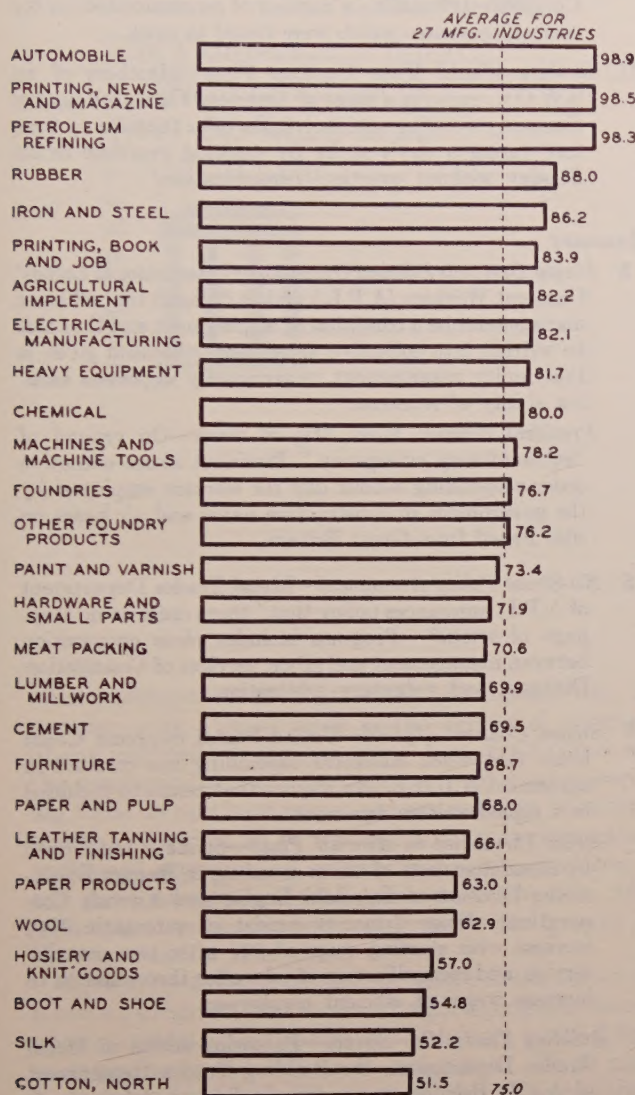
LABOR TRENDS IN 25 MANUFACTURING INDUSTRIES AND THE COST OF LIVING, 1938-1940

Source: THE CONFERENCE BOARD



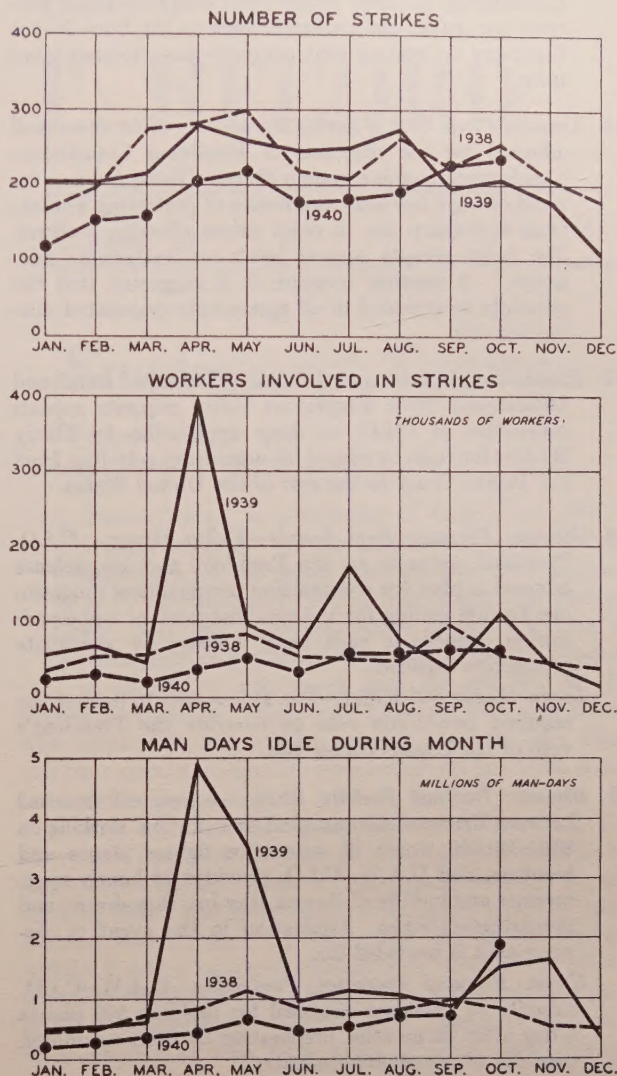
AVERAGE HOURLY EARNINGS IN CENTS 27 MANUFACTURING INDUSTRIES, NOVEMBER, 1940

Source: THE CONFERENCE BOARD



INDUSTRIAL DISPUTES, 1938, 1939, AND 1940

Source: U. S. Bureau of Labor Statistics



Chronology of Events Affecting Labor Relations December 11, 1940 to January 10, 1941

December

- 11 *Chrysler Signs Amended Contract*—Chrysler Corporation reaches agreement with U.A.W.-C.I.O. on terms of new contract running for one year. Provisions include wage increase of about 2¢ an hour for hourly workers, provision that wage rates may not be altered for a year, agreement that employees called for military duty will accumulate seniority while in service and Corporation will

pay group life insurance premiums, and a provision for a \$40 bonus in lieu of vacation with pay.

- 12 *Ford Rejects Consent Election*—Counsel for the Ford Motor Company announce that company will not consent to an election for collective bargaining agency among its 100,000 production workers as requested by the U.A.W.-C.I.O.

13 *Hillman Opposes Ford Defense Contract*—Sidney Hillman, labor representative on National Defense Advisory Commission, protests award of two-million-dollar contract for trucks and passenger cars to the Ford Motor Company on ground that company has violated labor laws.

16 *Canada Plans Cost of Living Bonus*—An order-in-council adopted for the direction of Dominion Conciliation boards recommends a system of cost of living bonuses instead of wage increases as a means of protecting workers from any sharp rise in retail prices affecting workers. The order accepts present levels as "reasonably adequate." A wartime measure, it is suggested that the principle be included in all agreements negotiated during the war.

17 *Eastern Employees Oppose Bridges*—The United Retail and Department Store Employees Union requests appeals committee of C.I.O. to deny application by Harry Bridges for right to extend his organizing activities from the Pacific Coast to the rest of the United States.

18 *Murray Proposes Joint Boards*—Philip Murray, C.I.O. President, submits to the President and his defense advisors a plan for reorganizing preparedness program, one feature calling for the establishment of employer-worker councils in each basic industry to coordinate production facilities.

Logan-Walter Bill Killed—The House fails to muster the required two-thirds vote to override the President's veto of the Logan-Walter Bill.

23 *Brewster Contract Forbids Strikes*—Agreement reached between Brewster Aeronautical Corporation, working on \$100,000,000 worth of orders for fighter planes and bombers, and U.A.W.-C.I.O. provides 6¢ hourly wage increase and forbids sit-downs, stay-ins, slow-downs and sympathetic strikes. Arbitration in the event of disagreement is provided for.

Union Proposes Increased Production—U.A.W.-C.I.O. submits to President proposal for building 500 planes a day after six months' preparation by utilizing unused capacity of automobile industry.

27 *Army Decides Against Union Protest*—War Department decides to award large contract for motor cars to Ford Motor Company in spite of protest from labor quarters that the company is violating N.L.R.A.

Overtime Clarification Asked—Subsidiary of Boeing Aircraft Company brings out fact that inclement weather sometimes prevents work during middle of week. Workmen are willing to make up time on Saturdays and Sundays at regular rates but are forbidden by union leaders to do so.

28 *Smith Committee Reports*—The majority report of the Smith Committee appointed to investigate administration of National Labor Relations Board is submitted to Congress. It contains a number of recommendations for correcting abuses which were found to exist.

31 *Strikers Would Make Up Lost Time*—Members of an S.W.O.C. union in a plant of American Car and Foundry Company working on Army tanks offer to make up time lost during a day's strike by working overtime or on Sunday without overtime compensation.

January

3 *Union Demands Efficient Operation*—International Ladies' Garment Workers (A.F.L.) makes demand that efficient management be a condition of employment and that this be written into collective agreements. Reason given is that faulty management unnecessarily depresses earning ability of workers.

President Extends Work Day at Bases—On ground of "extraordinary emergency," President issues executive order suspending 8-hour day for workers employed by the government in constructive naval and air bases on sites leased from Great Britain.

5 *No-Strike Policy Announced*—Metal Trades Department of A.F.L. announces policy that "there must be no stoppage of work." Program includes close cooperation between management and labor, services of Conciliation Division, and voluntary arbitration.

6 *Signed Contract Upheld*—United States Supreme Court holds that when collective bargaining has resulted in agreement N.L.R.B. can require that terms be included in a signed written agreement.

Strike Threatened in Aircraft Plant—Strike is authorized by unanimous vote of union members in Ranger Engineering Division of Fairchild Engine and Aircraft Corporation. Wage demands consist of automatic 7½¢ increase over starting wage of 50¢ after two months' service, and reclassification of jobs after three months to increase wages of efficient employees.

7 *Building Trades Bar Strikes*—Following action of Metal Trades Department, the Building Trades Department of A.F.L. decides on no-strike policy on defense construction. It was also decided that national unions should set initiation fees, with maximum kept below \$100 and in most cases below \$25.

9 *Notice of Strike Required*—The Michigan Labor Mediation Board states that employees in plants working on defense contracts must give 30 days' notice before a legal strike can be called. This is interpretation of state law requiring 5 days' notice before any strike and 30 days' notice if industry affects the public welfare.